

China: Exports stabilise but uncertainty clouds yuan

China's exports seem to be stabilising, with electronic exports bottoming out. Imports, particularly soybeans and LNG, continued to fall substantially. This is probably a tactic in the trade negotiations. Though the market has reacted very positively to news about a Phase One deal, we are more sceptical about the size of the deal



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China's export stabilised on electronics

Exports contracted 0.9% year-on-year in October after contracting 3.2%YoY in the previous month.

Some export items experienced clear growth on a monthly basis, for example, automatic data processing parts and products (+14%MoM). This could be a result of increased smartphone orders. But exports may contract again in November and December, as exports for Western holidays will have already been shipped.

Imports were more related to trade negotiations

Imports contracted 6.4%YoY in October after an 8.3%YoY contraction in September.

Most of the contraction came from a decrease in fruit (-35%MoM), soybean (-24%MoM) and LNG (-20%MoM) imports. These are items which are all on the table in trade talks between the US and China. We expect these imports to rise somewhat when the phase one deal is signed in December.

So many uncertainties in the phase one deal

The market has reacted positively to the news about a potential phase one deal, especially the possible rollback of tariffs imposed in September on \$112 billion of goods.

We are sceptical about the size of the rollback, however. If it's too big, China could be more reluctant to return to the negotiating table later on, or the terms could be much harsher for the US in future deals, so we think the US is unlikely to agree to this. If it's too small, China may see the move as an insignificant concession that will do little to help its economy. It is difficult for the two sides to compromise on the size of the rollback, which seems to be the key factor in getting a deal signed.

We think USD/CNY will reflect these uncertainties once the market realises that the phase one deal is not a one-way bet.